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published in
Multinational Business Review
2018

DOI (link to publisher)
10.1108/MBR-01-2018-0008

document version
Publisher's PDF, also known as Version of record

How does home country bribery affect firms' foreign market focus?

The case of firms in transition economies

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Received 30 January 2018
Revised 6 March 2018
28 March 2018
Accepted 29 March 2018

Abstract

Purpose – Drawing on the bribery literature, this paper aims to examine the effect of bribes paid in the home country on firms' decision to internationalize through exports from transition economies. It also investigates whether the effect of home country bribery may vary from new ventures to established firms, and from those firms that operate in an environment with high to low informal competition.

Design/methodology/approach – This paper tests several hypotheses using a panel data with fixed effects based on a sample of firms in transition economies from the Business Environment and Enterprise Performance Survey.

Findings – First, home country bribery in transition economies can make domestic markets more lenient and dampen firms' motivation to seek opportunities abroad. Second, new ventures have a higher motivation to focus on their domestic markets after paying bribes. Finally, despite the benefits accrued in the home country through bribery, firms that face a higher level of informal competition in the home country are more likely to seek opportunities abroad.

Practical implications – Managers in transition economies should consider their home country bribery activities in their evaluation of foreign market opportunities. Firms that use money to influence home country government officials, especially new ventures, are advised to have a more holistic view in evaluating foreign market opportunities so they will not miss out on new opportunities.

Originality/value – This paper advances literature on home country institutions and the research on firm global strategies. Moreover, it also highlights several contingencies that shape the effect of home country bribery on firms' foreign market focus.

Keywords Transition economies, New venture, Foreign market focus, Home country bribery, Informal competition

Paper type Research paper

Introduction

Although illegal and unpalatable, business-related bribes exist in almost every society (Donaldson and Dunfee, 1999; Getz and Volkema, 2001). In transition economies especially, the estimated amount of bribes paid is US$20bn to US$40bn annually (Transparency International, 2009). Bribery is relatively salient in these countries (Filatotchev *et al.*, 2008; Spicer *et al.*, 2000) because governments have certain discretion over the use of valuable

Multinational Business Review
Vol. 26 No. 3, 2018
pp. 225-249

1525-383X
DOI 10.1108/MBR-01-2018-0008

resources, information and law enforcement (Lee *et al.*, 2010). High levels of discretion and power attached to government officials allow them to solicit illegal payments from firms (Doh *et al.*, 2003; Rodriguez *et al.*, 2005) in exchange for needed resources and public services.

While scholars have provided much insights for bribery (Cuervo-Cazurra, 2006; Park, 2003; Yim *et al.*, 2017), most studies focus on the determinants of bribery rather than its strategic implications. In particular, the literature has been relatively silent regarding how bribery may affect firms' foreign market strategies. To fill this gap, this study examines how bribery in the home country may influence firms' motivation to seek opportunities abroad. Specifically, we ask the following questions:

- How does bribery in the home country influence firms' interests in foreign markets?
- Under which conditions is this effect strengthened or weakened?

Drawing upon the literature on corruption and bribery (Rodriguez *et al.*, 2005; Rose-Ackerman, 1997), we develop arguments examining how home country bribery affects firms' foreign market focus and the contingencies that shape this proposed effect. By doing so, our study makes three contributions to literature. First, prior research has maintained that when market mechanisms are not well-developed, the institutional void would be substantial (Khanna and Plaepu, 1997, 2000). Our study adds to this literature by articulating how firms may cope with these institutional voids through bribery, in return for the needed resources or favors in the domestic market (Oliver, 1991; Witt and Lewin, 2007). Second, we contend that bribery in the home country has crucial implications for firms – it enhances firms' interest in the domestic market while reducing the motivation to seek foreign markets. Third, our study examines whether this effect is moderated by key contingencies pertinent to transitional economies.

Whether firms are new ventures is a critical contingency in our study. We assert that new ventures are more vulnerable in hostile home countries, which could be described as a "sparse" entrepreneurial environment (Dubini, 1988) as adequate mechanisms that support new ventures are not fully established (Lyles *et al.*, 1995). New ventures may also lack the experience, resources and support to move beyond their home market, thus having less motivation to enter foreign markets. As new ventures bribe home country officials, the advantages resulting from bribery may enhance their positions in the domestic market while reducing their interest in exploring foreign markets.

In addition, we propose that competitive pressure from the informal sector would shape the impact of home country bribery on firms' interest in seeking foreign markets. The underdevelopment of institutions may also breed an informal economy, where business entities without the legal identities can operate and compete against legal ones (Castells and Portes, 1989; Schneider and Enste, 2000). These informal entities create obstacles for formal firms' home country operations (Bruton *et al.*, 2012; La Porta and Shleifer, 2008). In this study, we argue that the presence of informal firms in a country may erode the benefits from bribery and thus alter its effect on firm market focus.

Furthermore, the fact whether firms are new ventures or not and the informal competition can operate simultaneously in changing the effect of home country bribery. While new ventures that bribe home country officials have some motivation to focus on the domestic market, they are likely to seek opportunities abroad when there are strong competitive forces of the informal firms. We test these arguments using a panel data of firms located in 26 transition economies. We develop a unique database using the multi-country and multi-year surveys initiated by the European Bank for Reconstruction and Development (EBRD) and the World Bank. Our results provide broad support for our arguments.

Theoretical background

Bribery and firm internationalization

There have been a few studies on the effect of corruption on firms' decision for internationalization, but relatively little is known about the topic (Lee and Weng, 2013; Olney, 2016). While studies in the International Business (IB) literature have examined how institutional misalignments between the needs of firms and the environment lead to firms' escape to foreign countries (Witt and Lewin, 2007; Yamakawa *et al.*, 2008), earlier studies have not examined the effect of bribery payments that are made by individual firms to government officials. While corruption level is one component of institutional quality, firms' decisions to bribe may depend on other factors besides just the institutional constraints that are faced.

Other studies have examined the relationship between corruption specifically and international trade (Levchenko, 2007; Nunn, 2007), but fail to account for *individual firms'* export decisions as response to perceived corruption. While Olney (2016) complements this literature by providing an individual firm analysis with the Business Environment and Enterprise Performance Survey (BEEPS) data, he proxies corruption as the degree to which firms perceive corruption to be an obstacle to their operations and finds that corruption in developing countries may adversely affect access to foreign markets (Olney, 2016). Our paper differentiates itself by focusing specifically on individual firms' bribes paid to government officials and how that decision affects firms' market orientation, namely, their tendency to venture out in foreign markets through exports.

According to the Merriam-Webster dictionary, bribery is "money or favor given or promised to influence the judgment or conduct of a person in a position of trust," while corruption is "dishonest or illegal behavior especially by powerful people (such as government officials)." They are both used to describe illicit transactions between the giver and the receiver of payment in exchange for favors but are different in the sense that bribery is used from the giver (firm)'s perspective, while corruption is from the receiver (government officials). In the literature, studies such as Lambsdorff (2007) and Sandholtz and Koetzle (2000) define corruption offenses as inclusive of bribery, embezzlement, fraud, extortion, nepotism and kickbacks. From these definitions, we could infer that applied to our context, bribery is firms' act of using payments for favors, while corruption means the overall, comprehensive tendency of government officials in a country to engage in and allow illicit behavior for their private gain.

The literature further suggests that firm bribery is quite common in transition economies (Doh *et al.*, 2003; Rodriguez *et al.*, 2005). Governments are an important source of influence on business policies and resource control, and the institutional voids in these countries (Khanna and Plaepu, 1997, 2000) provide ample opportunities for mismanagement and corruption (Shleifer and Vishny, 1993). Many transition countries are also marked by the legacies of communism, in the form of political influence, bribery and corruption (Devinney, 2013).

Bribery transactions constitute both demand and supply (Martin *et al.*, 2007; Rose-Ackerman, 1997, p. 34). On the demand side, officials' discretionary power allows them to (mis)use this authority toward increasing personal welfare (Shleifer and Vishny, 1993). Government officials may accordingly request bribes and kickbacks from private agents to compensate for inadequate salaries (Holmes, 1999). On the supply side, there is no shortage of evidence showing that bribes are used by firms to "seek to influence the agent's exercise of discretion" (Banfield, 1975, p. 596). Bribes can be offered by firms to ameliorate the inefficiency of formal channels for acquiring public resources. Consequently, researchers

report that more than half of surveyed managers admitted to engaging in bribes proactively rather than passively in less developed countries such as Nigeria (Ufere *et al.*, 2012, p. 2444).

While an institutional environment where extortionate bribery demands are common may be characterized as a hostile home country which some firms may respond to through escapism (Witt and Lewin, 2007), some firms may display other strategic responses such as acquiescence or abatement (Oliver, 1991; Witt and Lewin, 2007). We view bribery payments made by firms as an example of firms accepting the institutional misalignment and its cost, as well as attempting to reduce this cost (in the case of bribery to change laws – grand corruption [Rose-Ackerman, 2002]). Even though bribery makes firms' operations costlier, and thus erode the potential profit that could be realized, the truth is that in an environment where every firm faces bribery demands or ample opportunity to voluntarily offer bribes in return for the anticipated benefits, those firms that choose to accept this condition and pay their dues earn benefits which put them momentarily ahead of their competitors who did not bribe.

The strategic implications of bribery

In countries where government officials hold discretionary power over the allocation of valuable resources, control of information, rulemaking and enforcement amid a lack of sound institutions, firms offer them bribery in "illegal informal exchanges" for certain preferential treatments (Mudambi *et al.*, 2013). First, bribery greases the wheel of commerce (Banfield, 1975; Getz and Volkema, 2001; Luo, 2005; Rose-Ackerman, 1997). Hsieh and Moretti (2006), for instance, document government officials misusing their power to sell public resources or products (e.g. oil) at prices below market values. Under this system of dual prices consisting of "a low state price and a higher free market price" (Rose-Ackerman, 1997, p. 35), firms can obtain resources at a lower cost by bribing.

Second, bribes can buy favorable interpretations of the law and lenient treatments. This is particularly important in transition economies where rules and regulations change frequently and rapidly. Iakovleva *et al.* (2013, p. 325) interview managers in Russia and Ukraine and find that managers "have to be ready to overcome various bureaucratic barriers" to develop a business. As governments impose regulations, levy taxes, enforce criminal laws and impose these costs selectively on firms, the firms' competitive positions within the domestic market are shaken. In response, firms may resort to bribes, as government officials have the discretion to "clarify regulatory requirements" and "lighten the regulatory load" (Rose-Ackerman, 1997, p. 36).

For instance, in Russia, bribery fuels the extensive illegal timber trade: firms selling illegally sourced logs can avoid some of the compliance costs and taxes, allowing them to offer logs at significantly reduced prices after bribing corrupt local officials (Vandergert and Newell, 2003). Bribery also allows firms to get away with other forms of corporate malfeasance: vodka manufacturers and retailers in Russia have used money so that officials would turn a blind eye toward tax evasion (Virkunen, 1999). As Pfeffer and Salancik (1978, p. 195) insightfully argue, money has the power to buy "exclusive coverage and competitive advantage."

In addition, bribes can reduce the obstacles associated with home country operations and speed up necessary bureaucratic processes. This suggests that additional payments could help firms bypass the red tape (Luo and Han, 2009; Rose-Ackerman, 1997) and reduce the adverse impact of red tape (Cuervo-Cazurra, 2006; Doh *et al.*, 2003; Lee and Weng, 2013). Similarly, key resources such as access to credit are usually controlled by governments (Barth *et al.*, 2009). Certain amounts of financial incentives therefore can be instrumental in

helping firms acquire the needed financial capital for their operations (Khwaja and Mian, 2005).

Hypotheses

How home country bribery affects firm foreign market focus

One important strategic decision firms must make is whether to move beyond its domestic market by exploring international markets. While firms may have different options for tapping into foreign markets, making sales in foreign countries is a common method given the relatively low commitment and risk involved (Johanson and Vahlne, 1977; Oviatt and McDougall, 1994). As all firms have limited resources, an emphasis on foreign market sales would ultimately "affect the allocation of resources [. . .] in the domestic market" (Campa and Guillén, 1999, p. 1463). On the other hand, a greater emphasis in the domestic market would mean that firms become more focused on their home countries and less on foreign markets.

We contend that firm bribery at home may influence its market focus and strategy to sell in foreign markets. This argument is supported by several reasons. First, government officials can "impose costs selectively in a way that affects the competitive position of firms in an industry" (Rose-Ackerman, 1997, p. 36). Firms that bribe can avoid certain costs and obtain additional benefits by seeking "unfair advantages and special treatments" relative to firms that do not (Martin *et al.*, 2007, p. 1403). Then the extent to which bribes can strengthen firms' domestic market positions and make the home country market more attractive.

While the lack of control over the needed resources – such as information regarding changing policies and favorable treatment – creates substantial uncertainty for entities operating within that environment, bribery can be one method to mitigate this uncertainty (Tan and Chintakananda, 2016). Bribery may allow firms to obtain inside information regarding future policies and regulations before their competitors do, such that bribing firms can "occupy a superior position in the market or grasp some early-mover opportunities" (Luo, 2005, p. 131). Since the benefits resulting from firm bribery are mainly applied within the home country (Claessens *et al.*, 2008; Khwaja and Mian, 2005), firms that use bribery to acquire resources in the home country may be less likely to abandon these benefits. In contrast, firms that bribe less have relatively fewer benefits to give up should they decide to tap into markets beyond their home bases.

Bribing firms may accordingly be motivated to focus on the reduced risks and enhanced competitive positions within their domestic market (Ito and Pucik, 1993). In general, foreign firms are inherently in a disadvantageous position relative to local competitors when operating within foreign countries, as local knowledge is difficult to obtain (Eden and Miller, 2004; Zaheer, 1995). The more firms bribe in the home country, the more attractive the domestic market will be. Thus, when bribing – acquiescing to the institutional weaknesses – gives firms benefits, paying more bribes would provide firms certain advantages in the home country. As such, these firms will be motivated to take advantage of the benefits resulting from bribery rather than look for opportunities elsewhere. We therefore argue:

H1. Bribery in the home country will reduce firm focus on foreign markets.

We note that this hypothesis is a general prediction, and its effect may vary depending on certain contextual factors. To better understand the effect of home country bribery, it is useful to examine these critical contingencies. In the present study, we consider two factors as such: the distinction between new ventures and established firms as well as the competition from informal firms in a home country.

Moderating role of new ventures

While both established and newer firms need government resources, new ventures are inherently in a more disadvantageous position since they are more vulnerable and resource-poorer than established firms. Prior research notes that young firms face certain difficulties and greater risk of failure (Coleman, 2004; Hannan and Freeman, 1984), also discussed as the "liability of newness" (Stinchcombe, 1965). New ventures face greater resource constraints and lack legitimacy (Aldrich and Fiol, 1994), and they also "possess comparatively little power and may be at the government' mercy relative to firm performance" (Sproul *et al.*, 2014, p. 1). Thus, the resources that they could gain from the government from bribing would be more crucial and valuable, compared to the same amount of government resources earned by established firms.

Especially in transition economies that lack adequate and legitimate market mechanisms that support new ventures (Dubini, 1988), ventures may resort to use bribes to create a more favorable environment (Pfeffer and Salancik, 1978). For example, some entrepreneurs in Russia reported that bribery expedites public utility service such as telephone installation, and the opportunity to purchase equipment from state enterprises (Webster and Charap, 1993). Some of the managers in venture firms also recognized that bribery was needed to obtain leases, lower raw material prices and lock in contracts, as well as bank credit (De Melo *et al.*, 1995).

Jancsics'(2013) interviews with Hungarian entrepreneurs also find that bribery is necessary to acquire needed resources. One manager even commented that, "I would say that small entrepreneurs are trained for it [petty corruption] because it is necessary for survival" (Jancsics, 2013, p. 329). The importance of bribery is perhaps best illustrated in an entrepreneur's comment that, "I see bribe payment as *business investment* [. . .] like buying input materials" (Ufere *et al.*, 2012, p. 2445; emphasis added). These remarks suggest that bribery helps new ventures obtain the resources necessary for their domestic operations.

As new ventures started off with a greater need for resources compared to their established counterparts, the consequences of bribery – to obtain benefits and reduce costs – would have a different effect. For them, the benefits from bribery may seem more important to leverage for better survival and success. These benefits are obviously most useful for domestic operations, and in most cases, "for new ventures [. . .] the *local environment* is noted to be the primary source of resources needed for operations" (Fernhaber *et al.*, 2008, p. 267, emphasis added). Home country government resources procured through bribery are therefore particularly important for new ventures. We thus argue that the effect of home country bribery will be more pronounced for new ventures than for established firms:

H2. The negative relationship between home country bribery and firm focus on foreign markets will be stronger for new ventures.

Moderating role of competition from informal firms

Another condition that could change the effect of home country bribery is the competition from informal firms in firms' home bases (Capelleras *et al.*, 2008). Informal firms are business entities that are not registered but still operate and compete against legally registered firms (Bruton *et al.*, 2012; La Porta and Shleifer, 2008). In other words, these firms do not officially exist in the government registry but operate in the marketplace. These "underground" firms are relatively away from government officials' discretion (Castells and Portes, 1989).

While some competition and inter-firm rivalry is fair (Nickell, 1996), the competition from informal economy is often unfair and places significant pressure on legal firms. Informal

firms have certain advantages *vis-à-vis* formal firms owing to the cost savings generated by circumventing taxes, labor laws and other regulations: they can hire cheaper labor and price goods below the accepted formal market rate (Farrell, 2004; La Porta and Shleifer, 2008). Two-thirds of the 40,757 firms in the World Bank Enterprise Surveys from 2006 to 2011 considered informal competition as a major obstacle to their business (Friesen and Wacker, 2013).

We accordingly argue that the effect of benefits gained via bribery within the domestic market may be dissipated by informal competition. While firms bribe home country government officials for resources and improved positions in the domestic market, if these resources cannot be well protected and lose their value in their home country due to informal competition, there will no longer be a reason to focus on the domestic market, and firms may choose to avoid the home country environment, which could be done by investing more in foreign markets (Cuervo-Cazurra *et al.*, 2014). If the government fails to curb the threat of unregistered firms, despite the fact that firms bribe officials for advantages in the home country, there will be less incentives for these firms to stay in an environment with unfair competition, and they would be inclined to look for opportunities abroad. We thus propose that the effect of domestic bribery may be reduced as the competition from informal firms in the home country increases:

H3. The negative relationship between home country bribery and firm focus on foreign markets will be weaker for firms operating in countries with stronger competition from informal entities.

Moderating role of new ventures and informal competition

We have argued that bribery within the home country can have differential impacts on new ventures versus established firms, and that the level of informal competition could alter the effect of home country bribery. These arguments consider the factors shaping the effect of home country bribery separately; yet these two contingencies could interact in shaping a firm's foreign market focus. New ventures face reduced survival prospects and are particularly vulnerable (Baik *et al.*, 2013) and thus value government resources gained through bribery relatively more than established firms. However, when competition from informal firms erodes the benefits of bribery, new ventures would be even more motivated to escape the home country environment which no longer helps them.

As new ventures are more sensitive to informal competition compared to established firms, they may perceive that the benefits from bribery is even more diminished as informal competition becomes intensified. Relatively young and small firms often consider informal pressures to be major challenges (Gonzalez and Lamanna, 2007). Many entrepreneurs in Albania, a former transition economy, responded that unfair competition from non-registered enterprises was "the largest obstacle to their success" (Bitzenis and Nito, 2005).

Put differently, among the firms that face high informal competition in a given country, new ventures would be particularly more susceptible to informal competition given the lack of experience and legitimacy – i.e. liability of newness (Freeman *et al.*, 1983). Consequently, with greater informal competition, these new ventures will have a stronger motivation to seek opportunities overseas for resources than established firms. More developed foreign markets may provide a better regulated environment as well as having less informal competition (Ghemawat, 2001). New ventures from transition economies would therefore be motivated to seek opportunities in a more developed foreign market where they face reduced transaction costs (Lee *et al.*, 2009; Luo and Wang, 2012).

This is in line with prior research noting that firms occupying non-dominant market positions are apt to explore foreign markets to avoid keen competition at home, particularly that from informal firms (Ito and Pucik, 1993; Sakaibara and Porter, 2001). We therefore contend that under the condition of strong informal competition in the home country, new ventures, even with more home bribery that would make domestic market attractive, will be more likely to seek opportunities abroad:

H4. While the relationship between home country bribery and firm focus on foreign markets is stronger for new ventures, this effect will be weaker if the new ventures operate in countries with stronger competition from informal firms.

Methods

Data

We test our hypotheses using a panel data of firms from the BEEPS, a cross-country, large-scale project jointly conducted by the EBRD and World Bank. Its objective is to assess a country's institutional environment from the perspective of businesses. Toward this goal, its researchers designed standardized questionnaires and collected data in 2002, 2005, 2009 and onwards. During each wave, the BEEPS covered more than 20 countries, primarily those in Eastern Europe and Central Asia.

This survey is one of the most suitable databases for studying firm bribery for three reasons. First, it includes detailed questions regarding bribery, asking managers to reflect the amount of bribe paid to officials. Second, the survey instrument was developed and modified multiple times before implementation, to be applied to different countries with reasonable consistency. Finally, it uses the stratified sampling method in each country, which ensures that the surveyed firms in different countries are properly chosen. Given these merits, the database has been used by prior studies (Lee and Weng, 2013; Spencer and Gomez, 2011; Yim *et al.*, 2017).

While the BEEPS is a survey in nature, there are reasons to believe that it is not severely affected by potential response bias and common method variance (Chang *et al.*, 2010). First, the main variables used in our study did not strongly rely on perceptual measures. We used questions that specifically asked for actual behaviors. For example, our primary variables such as firm focus on foreign markets and bribery within the home country are based on behaviors rather than perception. These questions are less cognitively demanding and encourage respondents to reply consistently. Second, following Svensson (2003), we test the non-response bias by examining the observable firm attributes for companies reporting bribery against those that did not. The *t*-tests on firm size and age were not significant (both $p > 0.1$), suggesting that the non-response bias is not a major concern.

We gather our sample by taking three steps. First, we extract a set of firms that are repeatedly observed in 2002, 2005 and/or 2009. Firms that are observed only once in the observation period were excluded. Second, we focus on transition economies, which are defined as formerly communist countries that adopted the socialist system (Hoskisson *et al.*, 2000). Third, we exclude observations with missing values in our theoretical variables. Taking these steps, we have 1,298 firms and 2,684 firm-year observations for analyses. The Appendix provides an overview of our sample.

Dependent variable

Firm foreign market focus refers to the extent that a firm emphasizes foreign versus its domestic markets. This variable is measured using the ratio of foreign sales over total sales, which suggests the importance of foreign markets relative to the domestic market for the

firm. The indicator has been used by prior research (Geringer *et al.*, 2000). This variable ranges from 0 to 100, with higher values indicating greater emphasis on foreign versus domestic market.

Independent and moderating variables

Home country bribery. Following Fisman and Svensson (2007), we identify a firm's home country bribery by using the ratio of the firm's payment to home country government officials scaled by its domestic sales. Information on the bribery amount is developed using the survey question from the BEEPS questionnaire: "[o]n average, what percent of total annual sales do firms like yours typically pay in unofficial payments/gifts to public officials?" Because the BEEPS is intended to "gather information and opinions about the investment climate in *this* country" (emphasis added), we believe that this item is mainly about domestic bribery rather than foreign bribery.

While this question does not directly ask what the focal firm paid, asking about "firms like yours" could be suitable for sensitive issues such as bribery. In fact, this method has been used extensively in studies using survey data in various fields. Indirectly framed questions were found to increase the response rate and motivate more honest responses because the respondents are bound by the social desirability bias of over-reporting their own good behavior and underreporting bad behavior (Fisher, 1993). The indirect questioning method allows respondents to feel that they are not being directly scrutinized, and thereby produces a clearer picture of what people actually did (Lusk and Norwood, 2009).

Respondents' estimations regarding others have been found to be more exactly correlated with their actual future behaviors versus respondents' statements about themselves (Epley and Dunning, 2000). It is also found that managers are most likely to respond to the indirect questions based on their own experiences; therefore, their responses can be interpreted as indicating the firm's own behavior (Johnson *et al.*, 2000). Accordingly, the question of bribery has been commonly used to measure bribery in the literature (Fisman and Svensson, 2007; Johnson *et al.*, 2000, Lee and Weng, 2013).

New venture. The literature distinguishes new ventures from established firms using firm age (Fernhaber *et al.*, 2008; McDougall *et al.*, 2003). Following McDougall *et al.* (2003), we used a binary variable to categorize firms that are five years old or younger as new ventures, while firms above this threshold are noted as established firms (1 = new ventures, 0 = established firms). According to the Small Business Administration (1992), the first five years are a critical period during which survival is determined for most firms.

Competition from informal firms in the home country. Although prior research has suggested that competitive pressure can be measured by the Herfindahl-type index, such an indicator is unavailable as the information on unregistered firms' sales is unobtainable. In this study, we measured competition from informal firms in the home country using the amount of goods or services in the market concealed from public authority scaled by that nation's gross domestic product (GDP). The rationale behind is that a certain proportion of a country's production is from unregistered firms, and that the greater this proportion, the more problematic informal competition would be. This variable is obtained from Schneider *et al.* (2010). This variable is a continuous indicator with higher values indicating stronger competitive forces from informal firms in a home country. In our data, the lowest value for this variable is 17 (Slovakia), and the highest is 67 (Georgia).

Control variables

Our model includes several control variables that account for correlates with firm foreign market focus. First, at the firm level, we control for firm size, R&D, advertising intensity and

government contract. Large firms are likely to have greater foreign market focus, and companies with stronger technological know-how and marketing resources have higher tendencies to explore foreign markets. *Firm size* is measured by the number of employees (logarithm). *R&D intensity* and *advertising intensity* are measured as the ratio of R&D expenditures and marketing expenditures over firm domestic sales. *Government contract*, on the other hand, is a binary variable indicating whether firms have home country governments as their clients (1 = yes and 0 = no).

Second, the decision to venture out into foreign markets can be influenced by shareholders. In contrast with foreign invested firms that often focus more on foreign markets (Filatotchev *et al.*, 2008), companies owned by home country governments generally act otherwise (Estrin *et al.*, 2016). Given this, we include *foreign ownership* and *government ownership* as control variables, which measure the proportion of ownership held by foreign shareholders and home country governments.

In addition, as resources and assets are likely to be distributed unequally among firms, firms that are efficient in managing their operations are likely to seek foreign markets. In light of this, our model included *capacity utilization* as a control, measured by firms' output over the maximum of possible output found in the survey. In a similar vein, we control for *new product development*, a dichotomous variable indicating whether firms had developed a new product within the past three years (Golovko and Valentini, 2014).

Third, as home country contexts have a profound impact on firm bribery (Martin *et al.*, 2007), firms' motivation to explore foreign markets can be affected by the development of their home countries. In light of this, our models include *GDP* (logarithm) and EU, a binary variable that was coded as 1 if a nation had a European Union membership at the time of the survey year, and 0 otherwise. Finally, our models include a battery of year and industry dummies. We create two dummies to denote years 2005 and 2009 to capture any periodic effect in comparison to year 2002, which is the base year. Industry information, on the other hand, was based on a question asking respondents to indicate from which sector firms generated the most revenues: textiles, garments, chemicals, plastics and rubber, basic metals, etc. The baseline category is "other manufacturing."

Analytic approaches

We have three issues to consider for the analytic approaches. First, as our data have firms appearing multiple times and thus has panel data structure, it is crucial to determine whether random or fixed effects models should be used. The Hausman test is useful in examining the correlation between unobserved individual effects and observed predictors (Greene, 2008, pp. 200-210). As the Hausman (1978) test is significant ($\chi^2 = 154.67$, $p < 0.001$), the null hypothesis that individual effects are uncorrelated with the regressors is rejected, suggesting that the fixed effect model would be more suitable. The use of firm-fixed effects means that the reported models explain within-firm variation in the market focus rather than inter-firm variation in the market focus. We used Stata's "xtreg, fe" command for the estimation.

Second, the measure of home country bribery deserves our attention. An assumption of the OLS model is that independent variables are exogenous. As bribery is likely an endogenous variable (Martin *et al.*, 2007; Svensson, 2003), models without considering the endogeneity problem may generate biased estimates. One way to alleviate the endogeneity issue is to use the instrument variable (IV) approach (Greene, 2008). A good instrument is expected to be strongly correlated with the independent variable but weakly correlated with the dependent variable. In the present study, we instrumented a focal firm's bribery using the average bribery level of other firms from an industry located within the same city.

Firms' locations were identified using an item in BEEPS which categorized all firms' locations into 134 unique areas in 26 countries.

This instrument was considered as other firms' bribery activities may be correlated with a focal firm's bribery but not necessarily affect the focal firm's focus on foreign markets. We obtained this instrument by first identifying a firm's location using an item in BEEPS. We then calculated the average bribery level for other firms within the same industry while excluding a focal firm's own bribery level. The average bribery level of other firms is strongly correlated with a focal firm's own bribery ($r = 0.17$, $p < 0.001$) but weakly correlated with foreign market focus ($r = -0.06$, $p < 0.05$), suggesting that the instrument is suitable. In our models, all the independent and control variables are lagged. As our data set included multiple observations for the same firm, we used the Huber–White sandwich estimator that generates robust variance estimates and robust standard errors.

Results

Main findings

Table I summarizes the descriptive statistics and correlations of our variables. As shown, our sample firms have a relatively low focus on foreign markets (Mean = 10.63) and show a reasonable variation (S.D. = 25). On average, these firms paid 0.83 per cent of their sales to home country government officials. Multi-collinearity is not a major concern as the highest VIF value is 3.23, which is below the recommended threshold of 5.3 (Hair *et al.*, 1998).

Table II summarizes the results of regression models. Model 1 includes the control variables, Model 2 tests the effect of home country bribery and Model 3 adds the interaction of bribery in the home country and new venture. Models 4 tests the moderating effect of informal competition, and Model 5 includes the three-way interaction term. All models are significant ($p < 0.001$), suggesting that the independent variables have high explanatory power.

H1 argues that firms that pay bribes in their home countries will focus less on foreign markets. In Model 2, the coefficient of bribery in the home country is negative ($\beta = -1.65$, $p < 0.05$). It means that holding all other factors as equal, a standard deviation increase of home country bribery will reduce firm focus on foreign markets by 4.43 per cent. As the average firm's foreign market focus in our data is not high, the effect is economically relevant. This finding provides strong support to *H1*.

H2 contends that the effect of home country bribery will be stronger for new ventures than for established firms. According to Model 3, the interaction between bribery and new ventures is negative and significant ($\beta = -5.42$, $p < 0.001$). The economic significance of this variable can be examined by adjusting the values of home country bribery and new ventures. A standard deviation increase of home country bribery from the mean would lower an established firm's focus on foreign markets by 4.11 per cent. In contrast, for new ventures, a standard deviation increase in home country bribery will reduce foreign market focus by 18.50 per cent. As the change of the foreign market focus is fairly large (14.39 per cent), *H2* is supported.

H3 argues that the negative effect of home country bribery will be reduced when firms face greater competition from the informal sector within their home countries. A positive interaction between home country bribery and competition from informal firms would support this hypothesis. In Model 4, we find a positive interaction between bribery within the home country and competition from informal firms ($\beta = 0.15$, $p < 0.01$). The effect of this estimate is also economically relevant. If we set informal competition at the mean level, then a standard deviation in home country bribery will decrease firm focus on foreign markets by 9.58 per cent. However, if we move informal competition to a one standard

Table I.
Descriptive statistics and correlations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Firms' foreign market focus	10.6 3	25.11	—												
2. Home country bribery	1.66	2.50	−0.05	—											
3. New venture	0.19	0.39	−0.08	0.07	—										
4. Competition from informal firms	38.00	11.00	−0.11	0.02	0.18	—									
5. Firm size	3.16	1.62	0.27	−0.09	−0.16	0.01	—								
6. R&D intensity	1.68	11.19	−0.04	0.05	0.09	0.09	−0.08	—							
7. Advertising intensity	3.48	31.87	−0.04	0.01	0.07	0.05	−0.07	0.56	—						
8. Capacity utilization	79.98	18.63	0.01	−0.08	0.05	−0.07	−0.01	0.00	−0.02	—					
9. Government contract	0.22	0.41	−0.02	0.32	0.02	0.01	0.03	0.04	−0.01	−0.06	—				
10. Government ownership	0.08	0.26	−0.01	−0.09	−0.07	0.03	0.29	0.00	0.00	0.00	−0.06	—			
11. Foreign ownership	0.09	0.29	0.14	−0.01	0.05	0.09	0.13	0.09	0.08	0.03	−0.01	−0.04	—		
12. New product development	0.65	0.48	0.13	0.07	−0.04	0.02	0.19	0.02	0.02	−0.04	0.09	−0.05	0.05	—	
13. GDP	23.99	1.41	−0.01	−0.01	−0.12	−0.35	0.00	−0.04	−0.01	0.06	0.00	−0.02	0.05	0.02	—
14. EU	0.20	0.40	0.06	−0.02	−0.12	−0.47	−0.06	−0.06	−0.03	0.05	−0.03	−0.06	−0.01	0.00	0.32

Notes: $N = 2{,}684$; correlations greater than 0.05 are significant at the 0.05 level; correlations greater than 0.07 are significant at 0.01 level

Table II.
Results of fixed-effect regression models[a]

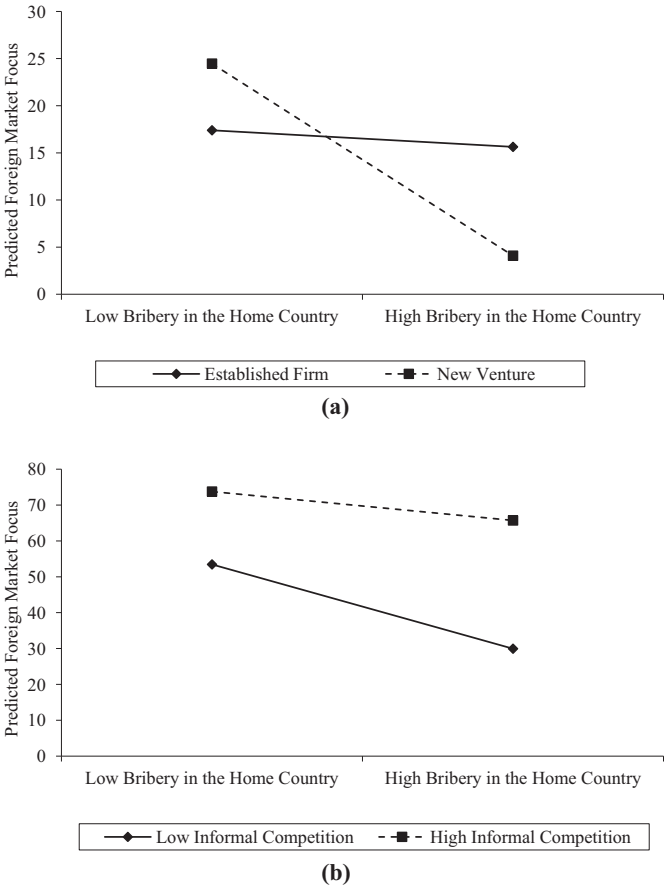
Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Industry dummies	Incl.	Incl.	Incl.	Incl.	Incl.
Year dummies	Incl.	Incl.	Incl.	Incl.	Incl.
Firm size	6.52^{+} (3.56)	4.34 (2.70)	4.78^{*} (2.24)	5.74^{*} (2.42)	5.43^{*} (2.10)
R&D intensity	−0.23 (0.27)	−0.25 (0.20)	−0.14 (0.17)	−0.24 (0.18)	−0.17 (0.15)
Advertising intensity	−0.02 (0.32)	0.17 (0.24)	0.15 (0.20)	0.14 (0.21)	0.15 (0.18)
Capacity utilization	0.04 (0.11)	0.04 (0.08)	−0.04 (0.07)	0.09 (0.07)	−0.00 (0.07)
Government contract	1.61 (4.91)	5.07 (3.93)	5.65^{+} (3.27)	5.61 (3.49)	5.54^{+} (3.03)
Government ownership	−0.37 (0.29)	-0.77^{*} (0.34)	-0.65^{*} (0.29)	-0.66^{*} (0.31)	-0.51^{+} (0.27)
Foreign ownership	7.77 (7.92)	8.46 (5.87)	3.59 (4.97)	11.97^{*} (5.29)	7.05 (4.75)
New product development	−3.64 (5.20)	−3.25 (3.91)	−1.73 (3.26)	−2.11 (3.48)	−2.53 (3.08)
GDP	−15.04 (22.66)	14.47 (17.96)	12.23 (14.93)	7.23 (16.06)	2.10 (14.22)
EU	−2.21 (5.48)	−0.94 (4.24)	−0.85 (3.52)	0.18 (3.78)	−1.11 (3.30)
New venture	0.69 (5.21)	0.26 (4.17)	−0.11 (3.46)	0.47 (3.70)	−1.34 (3.42)
Competition from informal firms	−3.12 (7.19)	5.52 (5.75)	4.76 (4.78)	1.53 (5.21)	−0.14 (4.67)
Home country bribery (*H1*, –)		-1.65^{*} (0.63)	-1.54^{**} (0.53)	-3.55^{***} (0.74)	-2.73^{***} (0.69)
Bribery × New venture (*H2*, –)			-5.42^{***} (1.08)		-4.65^{***} (1.14)
Bribery × Competition from informal firms (*H3*, $^{+}$)				0.15^{***} (0.04)	0.10^{**} (0.03)
New Venture × Competition from informal firms					0.39^{+} (0.20)
Bribery × New venture × Competition from informal firms (*H4*, –)					0.09 (0.08)
Intercept	4.72 (8.56)	−5.11 (6.96)	−4.69 (5.59)	−2.97 (5.61)	−6.95 (5.44)
R_2	0.40	0.47	0.64	0.59	0.45
Model F	1.78^{**}	3.38^{**}	1.78^{**}	2.72^{**}	3.96^{**}

Notes: $^{*}p < 0.05$; $^{**}p < 0.01$; $^{***}p < 0.001$; $^{+}p < 0.1$; [a]Robust standard errors clustered at the firm level are shown in the parentheses

deviation above the mean, the same amount of bribery would lower firm focus on foreign markets only by 4.88 per cent. As the change of foreign market focus is non-trivial (4.7 per cent) in our context, the finding provides support for *H3*.

H4 proposes that the interaction effect between bribery and new ventures will be reduced in countries where informal competition is intense. This hypothesis predicts a positive three-way interaction of between country bribery, new ventures and informal competition that affects firm focus on foreign markets. The result is shown in Model 5. While the sign of the interaction variable is positive as expected, it is non-significant ($p < 0.1$), thus *H4* is not supported.

To gain additional insight, we graphed the interaction effects in Figure 1. In creating Figure 1, we set the low (high) value as one standard deviation below (above) the mean and calculated the predicted values for the outcome variables. The plots shown in Figure 1 are



Notes: (a) Interaction of home country bribery and new ventures; (b) interaction of home country bribery and competition from informal firms

Figure 1.
Interaction plots

consistent with our hypotheses. Plot (a) shows that although bribery in the home country generally reduces firms' focus on foreign markets, the impact of bribery is greater for new ventures than for established firms, which supports *H2*. Similarly, plot (b) indicates that while the relationship between home country bribery and foreign market focus are both negative for firms facing lower and higher informal competition, the slope of the firms operating in countries with higher informal competition is flatter than the slope than those firms operating in countries with lower informal competition. Such a finding is consistent with the idea of *H3*.

Robustness checks

Aside from the main findings, we also perform several additional analyses to ensure that our results are robust. First, as our dependent variable has both a lower and upper limit bound (0 and 100 per cent, respectively) we use a two-sided Tobit regression as estimation technique (Greene, 2000). We run Tobit models with clustered errors by industry using the command *xttobit varlist, ll(0) ul(100)*. According to Table III, our results also hold in the Tobit models.

We also consider the multi-level structure of the variables (firm-, industry- and country-level), and use multilevel modeling techniques to analyze our data with Stata's *xtmixed* command. Our use of these mixed models allows for clustering of observations in groups, which constitute a hierarchical level above each data level, such as industry and country levels (Schielzeth and Nakagawa, 2013). We find that the results of these models are also consistent, with the exception of the non-significance for the interaction term between bribery and competition from informal firms, which is one of the limitations.

Second, we consider several additional country-level variables that may be relevant given our research topic including government corruption (Kaufmann *et al.*, 2009), rule of law (Kaufmann *et al.*, 2009), political constraint (Henisz, 2000) and incidence of national leader change. Government corruption was measured by control of corruption index; the original values range from −2.5 to 2.5, with higher values indicating high control of corruption. To facilitate interpretation, we reverse-code it such that higher values indicate that the government corruption issue is more prevalent. The variable of rule of law is from Kaufmann *et al.* (2009), and the information of political constraint index is from Henisz (2000). We create a dummy variable *National leader change* to indicate whether a nation's leader changed in each year. We add these variables separately into our models and perform estimations. The results with these additional controls are consistent with our main findings and may be provided upon request.

Third, although our measure of bribery provides useful information regarding a firm's home country bribery, a potential limitation is that it may include both passive bribery (e.g. bribes extorted by home country government officials) and active bribery (e.g. bribes used proactively to seek preferential treatments). We therefore endeavor to differentiate active bribery from the passive one. To do so, we first regress the observed bribery amount on government corruption, GDP, firm size, research and development (R&D) intensity, advertising intensity, government contract, new ventures, informal competition and other control variables. Using the estimate results, we calculate the predicted home country bribery.

Accordingly, an alternative home country bribery measure can be developed by subtracting the predicted bribery amount from the observed bribery amount. For instance, if one firm X had the predicted home country bribery of 2.2 per cent and its reported bribery amount is 3 per cent, then the firm' home country bribery can be coded

Table III.
Robustness tests[a]

Independent variables	Tobit analyses			Mixed effects analyses		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Industry dummies	Incl.	Incl.	Incl.	Incl.	Incl.	Incl.
Year dummies	Incl.	Incl.	Incl.	Incl.	Incl.	Incl.
Firm size	13.57*** (1.67)	12.50*** (1.10)	12.16*** (0.88)	4.41*** (0.48)	4.49*** (0.48)	4.46*** (0.48)
R&D intensity	0.21 (0.28)	0.26^{+} (0.13)	0.23^{+} (0.13)	0.04 (0.06)	0.05 (0.06)	0.04 (0.06)
Advertising intensity	−0.85 (0.53)	−0.90* (0.38)	−0.86* (0.40)	−0.13 (0.09)	−0.15 (0.09)	−0.13 (0.09)
Capacity utilization	0.13 (0.12)	0.13* (0.06)	0.10^{+} (0.06)	0.06^{+} (0.03)	0.06^{+} (0.03)	0.05 (0.03)
Government contract	9.87^{+} (5.14)	9.86*** (2.74)	9.46*** (2.39)	1.14 (1.49)	1.35 (1.47)	1.42 (1.46)
Government ownership	−0.26** (0.10)	−0.24*** (0.06)	−0.21*** (0.05)	−0.08** (0.03)	−0.08** (0.03)	−0.08** (0.03)
Foreign ownership	25.89*** (7.20)	21.06*** (4.58)	20.03*** (3.58)	11.11*** (2.30)	10.85*** (2.27)	10.78*** (2.26)
New product development	14.21** (5.23)	7.58** (2.79)	6.49** (2.38)	1.17 (1.37)	1.29 (1.36)	1.21 (1.35)
GDP	−1.97 (1.81)	−1.66^{+} (0.99)	−1.70* (0.85)	−0.79 (0.51)	−0.81 (0.51)	−0.85^{+} (0.51)
EU	13.14* (6.37)	7.01* (3.36)	4.86 (2.97)	2.14 (1.85)	2.05 (1.81)	1.18 (1.81)
New venture	1.30 (5.50)	1.97 (2.99)	2.42 (2.75)	0.96 (1.50)	1.18 (1.48)	0.44 (1.49)
Competition from informal firms	−1.17*** (0.28)	−1.12*** (0.21)	−1.18*** (0.18)	−0.29*** (0.07)	−0.30*** (0.07)	−0.36*** (0.08)
Home country bribery (*H1*, –)	−2.87* (1.13)	−2.62*** (0.62)	−2.61*** (0.55)	−0.66** (0.25)	−0.75** (0.25)	−0.74** (0.24)
Bribery × New venture (*H2*, –)		−5.73*** (1.44)	−5.72*** (1.40)		−1.36* (0.58)	−1.21* (0.58)
Bribery × Competition from informal firms (*H3*, $^{+}$)		0.12* (0.05)	0.11* (0.05)		0.03 (0.02)	0.03 (0.02)
New venture × Competition from informal firms			0.91*** (0.26)			0.41*** (0.12)
Bribery × New venture × Competition from informal firms (*H4*, –)			−0.17 (0.18)			−0.01 (0.05)
Intercept	−34.28 (52.87)	−44.80 (28.73)	−38.72 (25.13)	1.18 (16.03)	1.38 (15.81)	4.98 (15.74)
Log likelihood/Wald $\chi 2$	−2094.92	−2090.58	−2083.71	392.18	401.76	417.41

Notes: *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$; $^{+}p < 0.1$; [a]Robust standard errors clustered at the firm level are shown in the parentheses

as 0.8 per cent (3-2.2 = 0.8). Alternatively, if another firm Y had the predicted home country bribery of 1.4 per cent, while the reported bribery amount is 0.9 per cent, the home country bribery of this firm would be documented as −0.5 per cent (1.4-0.9 = −0.5). As can be reasoned, negative values suggest firms paid less bribes than the predicted levels; these are passive bribers. Alternatively, positive values indicate that firms paid bribes more than the predicted amounts and thus are active bribers. Using this alternative bribery variable, we performed additional analyses. The estimations based on this alternative measure of briery are consistent with our main results.

Fourth, we considered an alternative measure of informal competition in the home country. Although measuring the strength of informal competition is "inherently difficult" (La Porta and Shleifer, 2008, p. 280), we strove to capture the level of competition from informal firms in a particular industry by following two steps. First, we sorted out an item in BEEPS that asked managers to indicate the challenges posed by informal firms: "To what extent the practices of competitors in the informal sectors create obstacle to this establishment?" This item used a 0-4 scale, with 0 being "no obstacle," while "four being very severe obstacle." Second, we averaged the values by firms within an industry in a home country to measure the competition from informal firms for each industry. To ease interpretation, we re-scaled this variable to 1-5, with higher values indicating more obstacles created by informal firms in an industry. Results with these industry averaged values for informal competition were very consistent with our main findings[1].

Discussion

The purpose of this study is to examine the effect of home country bribery on firms' foreign market focus. Researchers have begun to investigate the determinants of firm bribery, a growing topic in the management literature (Cuervo-Cazurra, 2006; Luo, 2005; Spencer and Gomez, 2011). Despite the rich and useful findings, a less explored question is: what are the strategic implications of bribery? In addition, while many studies focus on firms' bribery activities in *host* countries (i.e. Di Guardo *et al.*, 2016; Keillor *et al.*, 2005), we look at firms' bribery in their *home* country and how this affects their foreign market strategies. In doing so, we wish to advance the literature on home country institutions and the research on firm global strategies (Cuervo-Cazurra, 2011; Ngo *et al.*, 2016; Tan and Chintakananda, 2016).

In this study, we use the literature on corruption (Martin *et al.*, 2007) to study the consequences of firm bribery. We contend that the more firms bribe to gain resources, the more likely that their domestic markets would appear attractive, and the less motivation they will have in exploring foreign markets. Building on this baseline argument, we also examine the conditions that may alter the effect of home country bribery, depending on whether firms are new ventures or established firms and the level of informal competition in the home country. We tested these arguments using a panel data of firms in transition economies, and the results provide broad support to our arguments.

Theoretical implications

This study contributes to the IB literature in two major ways. First, our study adds to the literature on government corruption (Doh *et al.*, 2003; Rodriguez, Uhlenbruck, and Eden, 2005) by investigating the implications of home country bribery. We contend that bribery has strategic implications for firms via the benefits and resources it provides. These benefits would induce bribing firms to focus more on the domestic market where obtained government resources and preferential treatments can be harnessed, therefore decreasing their interest in foreign markets.

The second contribution is that our study examines the contingencies that shape the effect of home country bribery. While both established firms and new ventures have incentives to approach officials to achieve their strategic goals, the impact of home country bribery is not the same for them. New ventures generally need more government resources than their established counterparts; thus, the effect of home country bribery which creates a more favorable home country environment is more pronounced for new ventures. Due to these benefits, new ventures' tendencies to focus on foreign markets diminish considerably more as they pay bribes to home country government officials.

The other contingent factor is the competition from informal firms in the home country (Bruton *et al.*, 2012; La Porta and Shleifer, 2008). These unregistered businesses can move quickly without being regulated and pose challenges to the domestic operations of registered firms. With much informal competition, the benefits of bribery are reduced. In such a case where the home country environment becomes burdensome without much benefits, firms may seek to avoid home countries by exploring foreign markets (Cuervo-Cazurra *et al.*, 2014). This reasoning suggests that while bribery can enhance a firm's focus on its domestic market, the effect decreases when firms are challenged by intense competition from the informal entities in the home country. By considering these contingencies both theoretically and empirically, our study wishes to provide a more nuanced picture regarding how firms' bribery in their home country affects foreign market focus.

Practical implications

Our findings have several implications for practitioners. First, managers should be aware that bribery has consequences for their global strategies. Given that the benefits from government resources are country-specific, many bribing firms may find their domestic markets more attractive and thus overlook opportunities in foreign markets. Consequently, practitioners should consider their home country activities (especially bribery) in their evaluation of foreign market opportunities. Firms that use money to influence home country government officials are advised to have a more holistic view in evaluating foreign market opportunities. Despite the potential challenges, new markets in other nations may have the unique resources and endowments that home countries do not readily offer (Ghemawat, 2001). Missing these opportunities may not be in the best interest of firms.

Second, managers in new ventures should be particularly mindful of the implications of bribery. We find that relative to established firms, new ventures generally have greater dependences on the government, and that such reliance will intensify the effect of home country bribery. Due to their newness and resource constraints, ventures are more challenged to compete for public resources against established counterparts. Using money to influence government officials thus is one method to support new ventures' domestic operations. Aside from this method, entrepreneurial firms could also consider strategically allocating their resources and efforts on nascent industries or to operate in sectors with fewer dominant players, or where governments provide more generous support. By choosing their domains strategically, new ventures will have more chances to secure public resources and improve their survival prospects in the home countries.

Limitations and future directions

Our paper has several limitations that provide opportunities for future research. First, to gain additional insights, we encourage researchers to adopt other methods such as qualitative interviews or more sophisticated questionnaires to capture this effect. Second, in addition to bribery, firms can also cultivate interpersonal relationships or develop political

connections with home country governments (Pfeffer and Salancik, 1978) which would have a positive impact on firm performance. As extensions, researchers can develop frameworks to study these alternative methods.

Third, our research setting is transition economies. Aside from countries included in this study, future studies can examine other emerging economies (such as India or China). Despite the market potential and resources, the institutions in these countries are not fully developed yet and government corruption issues may exist. Scholars therefore can design research to examine how the domestic activities may influence firm global strategies. Fourth, while BEEPS provides rich and detailed information regarding firms' bribery activities in the home country, information regarding the host countries which these firms explore is largely unavailable. It would be interesting to know whether the effect of home country bribery influence critical decisions in global strategies such as location choices and entry modes.

Conclusion

This study examines how home country bribery may influence firms' foreign market focus. We contend that domestic bribery allows firms to receive favorable treatments, which makes their domestic environments more attractive. Consequently, home country bribery can facilitate domestic operations and in turn influence firms' market focus. Building on this premise, we also argue that the effect of home country bribery may be altered depending on two crucial conditions, including whether firms are new ventures or established companies and the competition from informal firms in the home country. Amassing a panel data of firms in multiple transition economies, we find that new ventures have higher tendencies to focus on their domestic markets when they gain benefits from bribery. Moreover, competition from informal firms in the home country prompts firms to seek opportunities abroad despite the resources and favorable treatments acquired from bribery. These findings collectively suggest that firms' decisions to explore foreign markets are closely related to their home country activities and domestic contexts. In closing, we hope these arguments and findings can simulate more research examining the relationship between home country and firm internationalization.

Note

1. In the interest of space, only part of the robustness checks is shown here, but the full results are available upon request.

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Appendix

Country	No. of firms	No. of observations	Average amount of bribery (percentage in firm sales)
Albania	19	38	1.46
Armenia	95	201	1.33
Azerbaijan	6	12	4.60
Belarus	25	54	1.72
Bosnia	25	50	0.72
Bulgaria	92	189	2.04
Croatia	58	119	1.44
Czech Republic	21	44	2.39
Estonia	71	151	1.50
FYROM	50	101	1.06
Georgia	87	187	1.40
Hungary	44	89	2.10
Kazakhstan	61	125	1.57
Kyrgyz	53	110	2.69
Latvia	69	142	1.74
Lithuania	52	107	1.64
Moldova	72	147	1.28
Poland	81	166	1.89
Romania	68	136	1.86
Russia	32	66	1.49
Slovakia	27	55	1.95
Slovenia	69	151	1.65
Tajikistan	52	104	1.00
Ukraine	69	140	2.08
Total	1,298	2,684	

Table AI.
Sample distribution by country

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